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Approved For Release 2003/08/18 : CIA-RDP68B00724R000100090039-0

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OXCART/IDEALIST

Copy 7 of 7

28 NOV 1966

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MEMORANDUM FOR: See Distribution

SUBJECT : Vital Material Inventory - Vital Functions Update

1. General

a. Definition

- (1) Vital materials and/or vital positions are those documents and functions that are essential to reconstitute the operations of OSA/DD/S&T in the event of a nuclear attack or disaster which precludes operations at Headquarters.

2. Requirement

- a. An updated list of vital materials for OSA is to be compiled and submitted to the CIA Records Administration Office. See Attachment I - Present Inventory.
- b. In addition to the vital materials list, a list of those Headquarters staff positions necessary to perform the vital functions to sustain operations is to be included.

3. Responsibility

a. Functional Elements/OSA/DD/S&T

- (1) Each functional element is asked to review its inventory of documents on file at the Vital Records Center to ascertain if it complies with 1 a 1. (Attachment I).

NRO REVIEW COMPLETED

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- (2) In addition, it is requested that any changes in the Attachment, along with a list of Vital Staff Positions, be submitted to Compt/OSA/DD/S&T within five days for coordination, consolidation and transmittal to CIA Records Administration Office.

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JOHN PARANGOSKY
Deputy Director of Special Activities

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MARD/COMPT/OSA: [REDACTED] (22 Nov 66)

Distribution:

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ATTACHMENT I TO

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I. Present Inventory

A. Major Categories

1. Policy Directives and Plans

a. CIA/SAC Agreement - SAC Operations Order 1009
CHALICE EWP Operational Plan

2. Liaison Agreements with other government Agencies

a. Support of CIA in peacetime (TAB 6) TS-52262/1

b. Air Force support of Project AQUATONE
TS-103292/A - dated 25 March 1955

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B. General Operational Guidance

1. Cryptic Reference Files

2. Reports Control Manuals - Manuals used in generating mission message formats for planning, directing and controlling data between Project Headquarters, the detachments and support units.

a. Operation
IDEALIST-1414-64-Cy 2

b. OXCART-8348-Cy 29, OXCART-8288-Cy 5

C. Operational Support

1. Lists of Special Contracts - This list consists of the following:

a. Contract number

b. Company

c. Status of Funds - Each FY

d. Total amount of Contract

e. Total amount by Company

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Vital Material Inventory - Vital Functions Update

FROM:

EXTENSION

NO.

MARD/COMPT/OSA

7761

DATE

22 November 1966

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

DD/SA

RECEIVED

FORWARDED

1.

MARD/COMPT/OSA

11/22

11/22

gum

2.

COMPT/OSA

6/11

me

3.

EO/OSA (for information)

11/25

pro

4.

DD/SA (for signature)

-

mm

5.

MARD/COMPT/OSA
(for xeroxing)

-

lef

6.

RB/OSA (for distribution)

7.

8.

9.

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15.

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22 NOV 1966

MEMORANDUM FOR: Acting Deputy Director for Science and Technology

25X1A ATTENTION: [REDACTED]

SUBJECT: Study of the Procurement Systems of the CIA

25X1A REFERENCES: A. Study of the Procurement Systems of CIA by [REDACTED] dated July 1966

- B. Memorandum to Executive Director-Comptroller from Inspector General dated 4 October 1966
C. Memorandum to Deputy Directors and PPB from Executive Director-Comptroller dated 7 October 1966 (Exec.Reg.No.66-4266)

1. This memorandum is submitted for your information and in response to your verbal request for our comments on the procurement study, reference A, known generally as the [REDACTED]

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2. We have reviewed the document as thoroughly as possible within the limited time available. Our comments are generally limited to those areas which directly affect OSA. It is our understanding that the major proposals concerning organizational changes are not intended to apply to the OSA system. In those instances where we have commented on changes which only indirectly affect OSA, it is because the proposals are patterned on OSA's system and we feel that the OSA experience should be taken into consideration.

3. The report itself represents a substantial effort, particularly in the accumulation of statistical data to reflect the scope of the Agency's procurement activities. We are, of course, gratified that the OSA contracting system withstood the test of outside scrutiny and emerged as the pattern which is being proposed for installation in the rest of the Agency. While the report contains a few minor errors or misunderstandings, it is generally factual and we believe that it can be accepted as a base from which improvements can be sought. We concur with the

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Inspector General when he says that "even if the recommendations are not accepted the findings still indicate the need for strong corrective action". We quote this statement because we think that it identifies the greatest value the report will have. That is, the Agency officials who are responsible for administering these programs can, with the data available, determine the course of action which should now be taken. Certain of the recommendations contained in the report are valid and should be followed, but on the whole we think that the solutions which are proposed are disproportionate to the problem. The recommendations are quite broad and involve complete changes in concept in Agency management. They propose functional and organizational changes which involve all of the Deputy Directorates, and the establishment of a new policy position in the immediate office of a Deputy Director. The report seems to have lost sight of the fact that the focus of the effort is an activity in the Office of Logistics which involves only a handful of people. The implementation of the recommendations would require a much greater application of manpower, some of it at very high levels (such as the Special Assistant to the DD/S) and some of it in hard-to-find categories (such as the engineer who would be assigned to the industrial auditors as a consultant). We feel that the changes which are proposed are far too sweeping for the problems which exist, and that a more balanced program of improvement should be undertaken before such extraordinary corrective measures are considered.

3. RECOMMENDATION: Designate a Special Assistant to the DD/S for Procurement -

In several places the report states that there is no single person who is responsible for procurement policies and procedures. It is proposed that this be corrected by designating a Special Assistant to the DD/S for Procurement. In the first place, we cannot concur in the premise upon which the recommendation is based. It has always been well established that the Director of Logistics is the officer responsible for the development and implementation of procurement policies and procedures. This responsibility is inherent in [REDACTED] and in other statements in both [REDACTED]. The recommendation also stipulates (pp IV 21) that the Special Assistant to the DD/S for Procurement should have a staff and assume functions which go beyond procurement review. This seems to be an unnecessary duplication of effort in an era when T/O's are being cut rather than enlarged. Further, the proposal contemplates that the Special Assistant for Procurement would have the authority to adjudicate differences between the contracting officers, the

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auditors, and the project officers. He would thus have the authority to make decisions which must now be made by the Director of Logistics, the Director of Finance, or the command components who are responsible for the management of the programs. We do not believe that the Director of Logistics and the Director of Finance should be insulated from the DD/S or that the authority of the operating component should be diluted. Slowness of reaction is one of the report's major criticisms of the present system, and the addition of a new echelon of staff supervision cannot possibly result in more rapid response to requirements. This is particularly true when one recognizes that the Special Assistant for Procurement would probably be in the Headquarters Building, the contracting officers and auditors would be in Ames Building, and the project officers could be located anywhere. We believe the objective can be more efficiently accomplished by specifically charging the Director of Logistics with the responsibility for improvement rather than by creating a duplication of effort and a diffusion of responsibility. Above all, we feel that it would be a mistake to establish a Special Assistant to the DD/S for Procurement, and simultaneously make the DD/S&T responsible for R&D procurement. With the other controls already existing, this would result in a total diffusion of responsibility.

4. RECOMMENDATION: Centralize all R&D Contracting in the DD/S&T

Probably the most far-reaching recommendation in the report was the proposal to transfer the responsibility for all R&D contracting from the Office of Logistics to the DD/S&T. (It is our understanding that the report contemplates no change in the OSA system which was highly commended.) We believe that the report defeated its own proposal by acknowledging that TSD (DD/P) contracting should not be included. TSD contracting will have to be done somewhere, and if it is not included in the same structure which manages the DD/S&T contracting, it can only be assumed that it will continue to be handled in the Office of Logistics or in TSD itself. There is also the question of procurement for NPIC (DD/I) which is not fully resolved. In fact, although the report proposes that R&D contracting be centralized in DD/S&T, the net effect of the proposal would be to decentralize the system and require a much greater application of manpower. At the present time there are only two systems in the Agency (although the report at one place said there were three and in another place that there were five). These two are (a) the OSA/NRO system and (b) the Agency system, managed by the Director of Logistics. Actually, the NRO

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programs of OSA should not be considered in statistics which are used for a long-range Agency decision since the level of effort in these programs is being significantly reduced and, in any event, they have little relationship to or impact on the procurement being conducted elsewhere in the Agency. If the R&D contracting is ultimately transferred to the DD/S&T, we feel that the OSA experience in this field should be carefully considered. The transfer of the contracting officers from the Office of Logistics to the DD/S&T would not in itself create an R&D procurement system. It would also be necessary to transfer personnel from the Industrial Contract Auditing Division of the Office of Finance and perhaps establish a separate disbursing function as well. The team approach to procurement would be much more effective than the present system used by the Office of Logistics, but we are inclined to believe that it should be established under the cognizance of the Director of Logistics for the entire Agency, including TSD and NPIC, rather than the DD/S&T alone. The components concerned are already co-located in Rosslyn and this should not be difficult.

5. RECOMMENDATION: That a Contract Review Board be Established

We are not aware of any existing problem which would have been avoided by a Contract Review Board. The report itself identified no problem of internal control. Most of the criticisms concern coordination and procedures at the working level. Consequently, we are not sure what is to be accomplished by a review board. There is already a significant review of all programmed activities in the Agency, and we doubt that the survey team fully appreciated this. The Agency's planning and programming system assures careful consideration of each item included in a component's budget, and large items are included as separate line items. After the Agency budget is approved, individual transactions are subject to further review and approval under carefully prescribed approval procedures before the contracting officer can negotiate the contract. The Deputy Director concerned is responsible for authorizing the activity, the Director of Logistics is responsible for the contracting, the Office of General Counsel participates in all contracts, the Director of Finance is responsible for all contract auditing and disbursing, and the entire arrangement is subject to review by the Audit Staff. We do not see how a Contract Review Board could add anything to that level of responsibility. Rather, we would propose that Agency management clearly charge those offices with the specific improvements it feels should be effected in the field of contract management. A Contract Review Board would probably have no great effect on OSA. The Office of Logistics handles all

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contracting for items included in our Agency budget, but these are not large enough to fall within the scope of a Contract Review Board. Again, we assume that the NRO contracting would continue separately under the system approved by the DCI.

6. RECOMMENDATION: Establish a Management Information System

In several places the report refers to a need for a management information system, and the Inspector General discussed this in depth in para 10 of his memorandum. We concur in this requirement. OSA is attempting to develop an internal information system to advance internal program management, as well as contribute to a broader system which will facilitate staff review in the immediate office of the DDS&T. However, we do not concur in paragraph 10-d of the Inspector General's covering memorandum in which he suggests that, since his own office does not have expertise in the field of automatic data processing, consideration be given to employing an outside consultant, and perhaps the author of the report, to assist in the development of information systems in the areas mentioned. It is our view that the Agency has a significant capability in the ADP field. OSA has been well pleased with the support received from OCS during the past few weeks, and we are confident that OCS and our own Automatic Data Processing Division can handle our requirements in this area. Automation of programs is obviously a permanent, long-range objective, and any talent which is needed but not now available should be sought in the form of staff employees.

7. RECOMMENDATION: Establish a central repository of information concerning contractors and their performance.

We concur in the need for such a repository and will be willing to cooperate in the development of appropriate procedures.

8. RECOMMENDATION: Merge all of the Auditing Functions in the Audit Staff, Office of the Inspector General

We believe that this recommendation was based on a lack of understanding of the role of the industrial contract auditor as contrasted to the function of the Agency's Audit Staff. Aside from the differences in functions, there are the practical problems which would arise if the Agency attempted to absorb personnel and responsibilities presently under the control of the DCAA. The Agency's Audit Staff conducts periodic audits of all OSA activities, including the function of the industrial contract auditors.

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Since the Inspector General has nonconcurred in this recommendation, we will not attempt to document our objection in depth.

9. RECOMMENDATION: That a policy of rotation of USAF auditors be adopted

On Page 111-112, the report recommends that the OSA/DCAA auditors be rotated, although no specific rotational period is suggested. This is justified on the basis that it is necessary to maintain a "fresh viewpoint". It is also stated that "IDEALIST and OXCART have continued with the same contractor and contracting teams (including auditors) for a period of eleven years".

10. In the first place, it is simply not true that the same personnel have been performing the same functions for eleven years. The Contract Management Division has [] contracting officers. Of these, [] have been in OSA for one year or less, and [] others have been here for less than three years. Only [] have been in this program for as long as ten years, and their assignments have not always involved the same contracting firms. The Audit Staff has increased over the years, and there are presently [] auditors assigned to OSA's Industrial Audit Division. Of these, [] have been here less than two years. There are only [] who have been in the same position for more than four years.

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There is no contract in which the contracting officer and the supervising auditor have both been on the contracting team for more than three years. Our largest contract has been handled by the same contracting officer over the years, but audit supervision in this contract has changed.

11. The [] auditors assigned to the Agency to audit the NRO projects have recently been transferred from the Air Force to the Defense Contract Auditing Agency insofar as their career service is concerned, but there will be no change in the operating procedures. The DCAA has several thousand auditors at various locations around the country and these people are long-term residents of their respective communities. Under DCAA procedures an employee may not be compelled to accept an assignment which would require that he sell his home, move his family, and re-establish himself in another community. Thus, a policy of enforced rotation would not mean that our auditors would be rotated from one locale to another, within the project, but that they would be returned to DCAA and presumably replaced by other DCAA personnel. In the past few months we have reviewed over 100 files and interviewed numerous auditors in an attempt to EOD three auditors. Once selected, security clearances and normal administrative delay result in a processing period of 6 to 8 months. If we had to

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GROUP 1
Excluded from automatic
downgrading and
declassification

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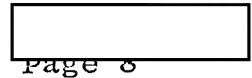
rotate the staff of auditors at specified intervals, the personnel problems would be exceedingly burdensome. We will, of course, rotate or reassign any auditor whenever this is necessary. We are not sure what the report means by a "fresh viewpoint", but we do not think it is the over-riding consideration in this instance. The only substantive justification for a rotational policy is to assure that an auditor is not permitted, by long tenure, to become careless or involved in collusion or conflict of interest. The present methods of supervision in our audit program are designed to guard against these hazards whether due to long tenure or a lack of competence, as well as assure that the audits are performed according to established auditing standards. As contrasted to the "fresh viewpoint", it is our view that the interests of the Government are best served through a thorough knowledge of all of the policies and procedures of the contracting firm. These firms are constantly making minor adjustments in their internal systems and procedures in response to governmental rulings, and it is essential that the auditor be able to identify and assess these as they take place. The staff becomes knowledgeable of the contractor's systems and can more effectively control the cost generated against the various contracts being completed by the contractor. Such thorough knowledge of the contractor's financial organization also is very beneficial when performing price/cost evaluations of proposals submitted by the contractor in contemplation of a government contract award.

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12. RECOMMENDATION: Improve inventory controls

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to the attention of the Air Force, since we can't demonstrate that a problem exists. We will continue to work to improve the procedures, with specific attention to the feasibility of computerizing the system. The latter will be seriously considered if we determine that ADP equipment would either improve efficiency or reduce costs.

13. There is one other item which we should discuss. On page 111-58 the report states that "Certification for payment on all but the final payment is virtually an automatic action". It then goes on to say that there is no participation in the payment process by the contracting officer. There is no further reference to this in the report, and it is not the subject of a specific recommendation, but we feel that the implications of the comment are such that we must respond to it. It is true that the billings from the contractor for partial payments are sent to the Finance Operations Division, which is responsible for all disbursements by OSA. FOD has the originals of all contracts, and each billing is desk audited before payment is made. Nothing involving money is handled as an "automatic action". At the present time FOD is holding over 70 billings for further documentation. For the larger contracts there are resident contract auditors and the charges are audited at the site. When partial payments are made by FOD, a notification is sent to the contracting officer. The contracting officer also receives copies of the monthly accountings which are submitted by the contractor. The contracting officer reviews all of the documentation and, if any question arises, it is resolved before the next monthly billing is processed. In no case may the cumulative partial payments by FOD exceed 85% of the contract price. This system has worked well and is endorsed by both Contracts Management Division and FOD. Prior experience showed that a requirement for prior coordination of each billing resulted in unwarranted delays because the contracting officers were frequently out of town and not available for coordination when the billings were presented. The contractors have significant sums tied up in these programs and one of the key features of the OSA system is prompt processing of their billings. FOD is an integral part of the procurement team and in processing these vouchers they are not acting blindly. If there is any remaining doubt about this particular procedure, we will be happy to discuss it in greater detail.

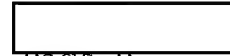
14. In summary, we feel that the survey has served a useful purpose in identifying problem areas and accumulating the data necessary to enable Agency management to determine the most

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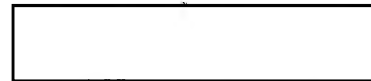
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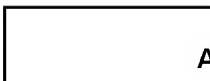
logical course of action. On the other hand, we believe that the problems can be resolved much more simply than as suggested in the report. We would urge that a more moderate solution be sought before resorting to major conceptual and organizational changes.



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PAUL N. BACALIS
Brigadier General, USAF
Director of Special Activities

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